

Property Taxes

Budget Education Session #7

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Property Taxes

- What is Property Tax?
- How Property Tax Works
- Facts About Property Taxes
- General Trends in Redmond

What is Property Tax?

- Property Tax is a tax on real property and personal property used in a trade or business.
- Real Property
 - ❑ Land
 - ❑ Buildings
 - ❑ Improvements attached to the land
- Personal Property
 - ❑ Machinery and equipment
 - ❑ Furniture and fixtures in commercial use
 - ❑ Supplies and materials that are not held for sale or become a part of a saleable item
 - ❑ Leased equipment and certain leasehold improvements

What property is not taxable?

- Property owned by federal, state and local governments.
- Church-owned property used for church purposes.
- Low income housing owned by public corporations (e.g. Housing Authorities).
- Privately owned schools and colleges.
- Personal property owned by individuals, such as:
 - ❑ Motor vehicles
 - ❑ Stocks, bonds and/or shares of corporations
 - ❑ Personal effects and household goods in actual use by their owners

What is a Property Tax Levy and How is it Determined?

- A property tax levy is the amount a taxing jurisdiction chooses to collect from its property owners to pay for the cost of general operations and debt obligations.
- There are two different levies a jurisdiction may impose.
 - Regular levy
 - Excess levy

What is a Property Tax Levy and How is it Determined?

■ Regular Levy

- ❑ Pays for general operations and repayment of Council approved debt.
- ❑ Cannot exceed maximum of 101% or the rate of the implicit price deflator (if less than one percent).
 - The 1% requires Council approval.
 - Local districts may override the 1% limit if authorized by a majority of the voters of the district; commonly referred to as a “Levy Lid Lift.”

■ Excess Levy

- ❑ Represents amount of money a taxing jurisdiction needs to pay the debt service on voted bond issues.
- ❑ Cannot exceed annual debt service requirements plus a reasonable allowance for uncollectible property taxes.

Where Property Taxes Go

Myth #1: Redmond receives all property tax dollars that are paid by a property owner located within the city limits.

Fact: Only 15% of total property taxes paid are collected by the City of Redmond.

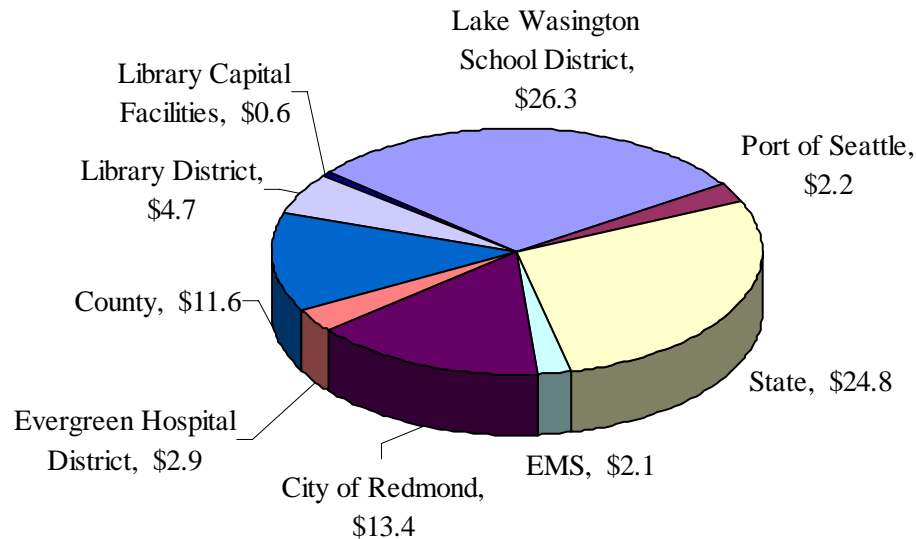
Property Tax by Jurisdiction

<u>Taxing Jurisdictions</u>	<u>2003 Levy Rate</u>	<u>% of Total</u>
Lake Washington School District	\$ 3.07	30%
State	2.90	28%
City of Redmond	1.57	15%
County	1.35	13%
Library District	0.55	5%
Evergreen Hospital district	0.34	3%
Port of Seattle	0.26	3%
EMS	0.24	2%
Library Capital Facilities	0.07	1%
	<u>\$ 10.35</u>	<u>100%</u>

Where Property Taxes Go

- Lake Washington School District and State of Washington are the largest recipients
- \$13 million received by the City of Redmond.
- \$12 million received by King County

Total Property Taxes Paid by Redmond Property Owners
\$89 Million to all Taxing Jurisdictions
(in millions)



Where Property Taxes Go

Property Taxes Paid by a Typical Redmond Resident on an Average Priced Home 2001-2003

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Inc/(Dec) 2001-2003</u>
Average Home	\$ 305,000	\$ 356,000	\$ 354,000	16%
<u>Taxing Jurisdiction</u>				
Lake Wasington School District	\$ 1,077	\$ 1,132	\$ 1,087	1%
State	961	1,064	1,027	7%
City of Redmond	537	570	556	4%
County	473	516	478	1%
Library District	171	189	195	14%
Evergreen Hospital District	119	128	120	1%
Port of Seattle	58	68	92	59%
EMS	76	89	85	11%
Library Capital Facilities	24	25	25	2%
Total Property Taxes Paid	\$ 3,495	\$ 3,781	\$ 3,664	5%

How Property Taxes Work

Myth #2: As property values rise, the City of Redmond receives more property tax revenue.

Fact: Property values do not determine the amount of property tax revenue a City receives.

- The amount of property taxes received is determined by four factors:
 - ❑ City Council: Council sets the amount for general operations and Council approved debt within the 1% limit.
 - ❑ Voters: Voter approved debt and/or voter approved levy lid lift.
 - ❑ New Construction: City receives an increase for new construction as it is placed on tax rolls.
 - ❑ Annexations: If the City annexes a property, the City will receive more property tax as the property is added to the tax rolls.
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How Property Taxes are Allocated

- Council has no control over how property taxes will be allocated to individual properties.
- Property taxes are allocated based on assessed valuation (AV).
- AV is established by the King County Assessor's Office.
- An individual's share of the property tax pie is determined by dividing individual AV by citywide AV.

How Property Taxes Are Allocated

Basic Property Tax Equation

Determines % of Property Tax
a property owner pays

$\frac{\text{Individual AV}}{\text{Total AV}}$

X

\$ amount City
wishes to receive

=

Individual Property Tax Bill

Set by Council

- An individual property tax bill is determined by first calculating:
 - ❑ A property's assessed valuation relative to all other properties in the city multiplied by...
 - ❑ The amount of money the City wishes to collect.

How Property Taxes Are Allocated

Another way the basic property tax formula is used is to calculate the rate
Per \$1,000 of AV

How Property Tax Rate Is Calculated

Converts Property into
\$1,000 increments

Calculates the rate
per \$1,000

$$\text{Individual AV}/\$1,000 \times \frac{\text{\$ amount City wishes to receive}}{\text{Total AV}/\$1,000} = \text{Individual Property Tax Bill}$$

- An individual property tax bill can also be calculated by dividing the amount the city chooses to collect by the total AV/\$1,000 multiplied by...
- An individual properties AV/\$1,000.

How Property Taxes Are Allocated

Myth #3: If the City Council approves a 1% increase in property taxes, then an individual's property tax bill should rise by the same amount.

Fact: An individual property tax bill is a function of two components and does not necessarily rise in the same proportion as an increase in the levy amount, which represents only one component.

- Change in assessed valuation relative to all other properties.
- The amount of property tax a City chooses to levy

How Property Taxes Are Allocated

ILLUSTRATION

Year 1:

- City Council sets property tax levy at \$1,000.
- Total taxes are spread proportionately among all properties in the tax base.

Property	AV	Percent of Total AV		City \$ Needed		Share of Tax Bill
A	\$ 200,000	14%	x	\$ 1,000	=	\$ 143
B	300,000	21%	x	1,000	=	214
C	400,000	29%	x	1,000	=	286
D	500,000	36%		1,000	=	357
Total AV	\$ 1,400,000	100%				\$ 1,000

How Property Taxes Are Allocated

ILLUSTRATION (CONTINUED)

Year 2:

- City determines property tax amount should increase by 1%.
- Property values increase from the previous year as follows:
 - ❑ Property A by 20%
 - ❑ Property B by 15%
 - ❑ Property C by 10%
 - ❑ Property D by 5%

Property	AV	Percent of Total AV		City \$ Needed		Share of Tax Bill
A	\$ 240,000	15%	x	\$ 1,010	=	\$ 156
B	345,000	22%	x	1,010	=	225
C	440,000	28%	x	1,010	=	287
D	525,000	34%		1,010	=	342
Total AV	1,550,000	100%				1,010

How Property Taxes Are Allocated

ILLUSTRATION RESULTS

Assessed Valuation

Property	Year 1	Year 2	% Change
A	\$ 200,000	\$ 240,000	20%
B	300,000	345,000	15%
C	400,000	440,000	10%
D	500,000	525,000	5%
Total AV	\$ 1,400,000	\$ 1,550,000	11%

Taxes Paid

Property	Year 1	Year 2	Dollar Inc/(Dec)	Percent Inc/(Dec)
A	\$ 143	\$ 156	\$ 14	9%
B	214	225	11	5%
C	286	287	1	0%
D	357	342	(15)	-4%
Total AV	\$ 1,000	\$ 1,010	10	1%

How New Construction Affects Property Tax Collections

Myth #4: New construction occurring within the city generates a significant amount of property tax dollars for the City of Redmond.

Fact: New construction generates only a small amount of the total property tax dollars collected on an annual basis.

New Construction Values & Corresponding Property Tax Revenues 2000 - 2003

Tax Roll	Value of New Construction	Additional Property Tax Dollars Generated
2000	\$ 314,349,057	\$ 499,815
2001	258,346,207	374,602
2002	249,989,313	327,486
2003	137,815,385	179,160

Source: K.C Assessor

- In 2003, for every \$100 million of new construction the city received \$129,000.
- Only the City's regular levy rate which pays for basic services, such as Police, Fire, Parks, etc. is applicable to new construction.

Assessed Value and Property Taxes Paid

Commercial and Residential Property Owners 1997 vs. 2004

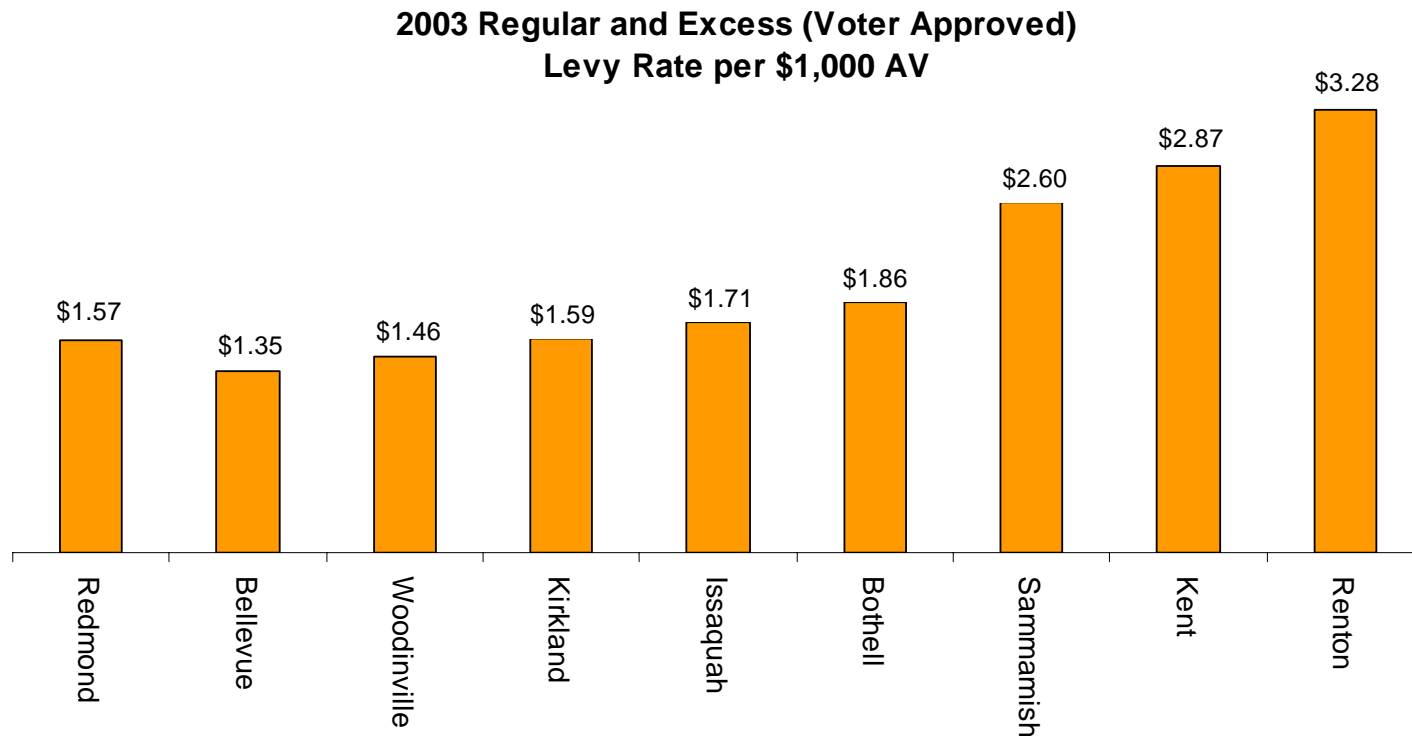
	AV	AV	AV	1997	2004	Tax Bill
	1997	2004	Percentage	Redmond	Redmond	Percentage
Commercial			Change	Property Tax	Property Tax	Change
High Tech	3,575,800	5,644,200	58%	\$8,546	\$8,974	5%
High Tech	8,884,100	11,709,600	32%	\$21,233	\$18,618	-12%
Office Building	7,770,000	11,190,900	44%	\$18,570	\$17,794	-4%
High Tech	9,846,700	11,824,800	20%	\$23,534	\$18,801	-20%
Manufacturing	2,915,200	4,965,200	70%	\$6,967	\$7,895	13%

	AV	AV	AV	1997	2004	Tax Bill
	1997	2004	Percentage	Redmond	Redmond	Percentage
Residential			Change	Property Tax	Property Tax	Change
View Ridge East	162,000	324,000	100%	\$387	\$515	33%
Rose Hill	132,400	251,000	90%	\$316	\$399	26%
Education Hill	144,200	267,000	85%	\$345	\$425	23%
Marymoor Hill	321,600	546,000	70%	\$769	\$868	13%
Abbey Road	285,300	476,000	67%	\$682	\$757	11%
Sheffield Green	256,100	448,000	75%	\$612	\$712	16%

- Example shows that changes in assessed valuation (AV) does not necessarily correlate to a corresponding increase or decrease in taxes paid.
- City has increase the levy only three times in the last 7 years (average annual increase of 1%).

How Redmond's Property Tax Rate Compares to Other Jurisdictions

Redmond has one of the lowest tax rates of surrounding jurisdictions



Source: King County Assessor's Office

Summary

Facts About Property Taxes

- 9 taxing jurisdictions within the City of Redmond.
- City receives only 15% of the total taxes paid by property owners.

<u>Taxing Jurisdictions</u>	<u>2003 Levy Rate</u>	<u>% of Total</u>
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Summary

Facts About Property Taxes

- City may impose two different levies:
 - Regular levy: Pays for general operations and Council approved debt.
 - Limited to 1% increase annually (1% generates approximately \$110,000.)
 - City may override one percent limit if authorized by a majority of voters of the district (commonly referred to as a “Levy Lid Lift”)
 - Excess levy: Based on debt service on outstanding bonds plus a reasonable amount for delinquent taxes

Basic Property Tax Formula

Determines % of Property Tax an
Individual Property Owner Pays

Set by Council

$$\frac{\text{Individual AV}}{\text{Total AV}}$$

X

\$ levied by City

=

Property Tax Bill

Summary

Facts About Property Taxes

- An individual property tax bill is a function of two components:
 - ❑ Change in assessed valuation relative to all other properties.
 - ❑ The amount of property tax a City chooses to levy.
- A rise in the individual components does not necessarily result in a rise in property taxes paid.
- New construction generates only a small amount of property taxes collected on an annual basis.
 - ❑ For every \$100 million of new construction, City receives approximately \$129,000.
- General trends in Redmond:
 - ❑ Between 1997 and 2004, residential property values have grown at a faster rate than commercial properties
 - ❑ As a result, property taxes paid by residential property owners have increased more rapidly than those paid by commercial property owners.